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MARCH 20, 1990
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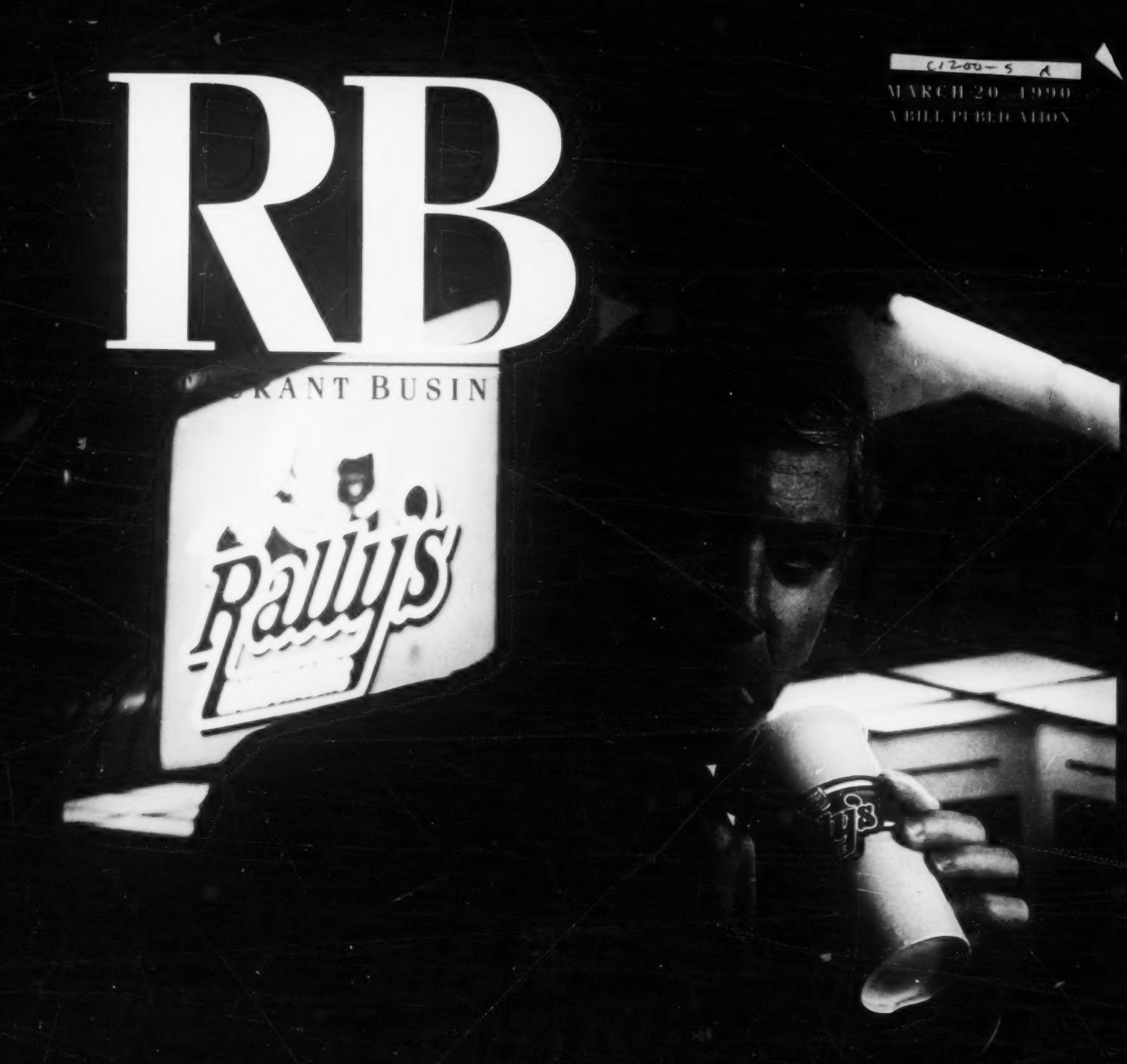


25TH ANNUAL FRANCHISE REPORT

INDEPENDENT ST★RS: MONTOYA'S BARGAINS • THIRD ST. PIER

MENU IDEAS: PIZZA CLASSICS

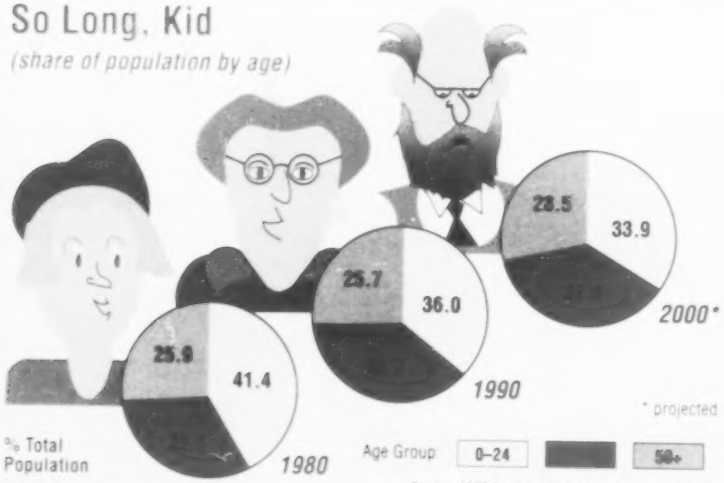
LATELINE: SILVER PLATE WINNERS

Richard Sherman,
Rally's president and CEO

BUSINESS BAROMETER

So Long, Kid

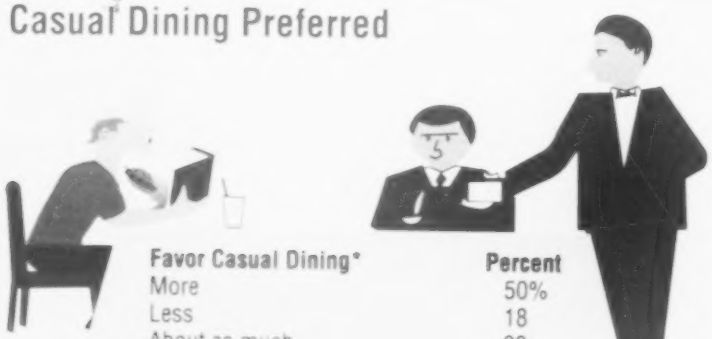
(share of population by age)



Source: 1980 Census and Census Bureau projections

Savvy marketers will recognize that their target market is changing shape. The "baby-boom" generation is barely replacing itself. Statistics show that by the year 2000, each of the three age groups shown will be roughly equivalent in size—and each will expect its individual needs to be met.

Casual Dining Preferred



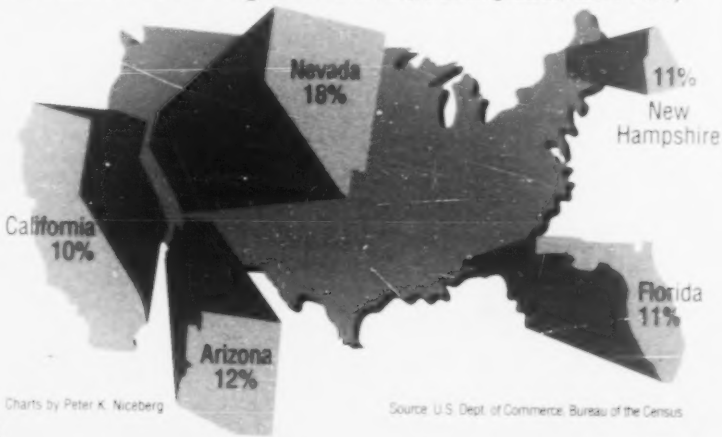
Favor Casual Dining*	Percent
More	50%
Less	18
About as much	23
Rarely	7
Don't know	2

* rather than fine dining

Source: National Restaurant Association/Gallup Survey

Restaurant diners are turning away from formal service, luxurious decor, and high prices, and more toward simple, reasonably priced dishes served in a relaxed setting. An NRA/Gallup survey of 1,000 adults found that they favor such concepts as bistros, brasseries, cafes, trattorias, and grills.

Fastest Growing States *(Population growth, 1985-1989)*



Charts by Peter K. Niceberg

Source: U.S. Dept. of Commerce, Bureau of the Census

The West continued as the fastest-growing region from 1985 to 1989, increasing at more than twice the national rate (4.0%) despite far slower growth in Montana, Idaho, Wyoming, Colorado, New Mexico, Utah, and Alaska. California has accounted for 25% of the nation's population growth since 1985.

RESTAURANT BUSINESS

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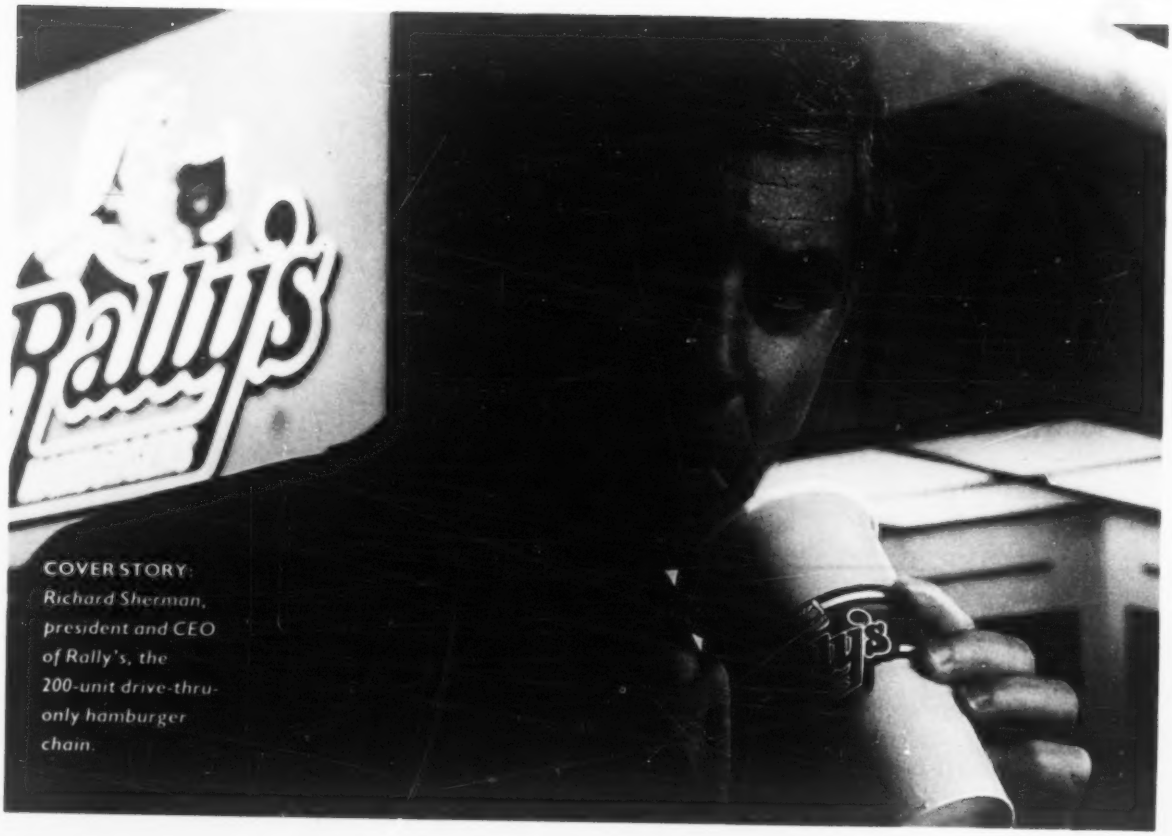

COVER STORY: *Richard Sherman, president and CEO of Rally's, the 200-unit drive-thru-only hamburger chain.*

COVER STORY

INDUSTRY REPORT **FRANCHISING.** This is the 25th Annual Franchising Report. As in past years, this comprehensive, state-of-the-industry report includes information on the top 11 major market segments (hamburger, seafood, chicken, pancake, pizza, Mexican, steak, sandwich, ice cream, donut, and c-store). Rally's, the fastest-growing second-tier chain, is profiled on page 108. The current franchising environment is explored in Franchise Friction Points, beginning on page 120. 65

Cover photograph by Michael Terranova

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FEATURES

INDEPENDENT STARS **DON SALSA.** Nick Montoya dares to go where other restaurateurs have gone and failed. The owner of the three-unit Don Salsa group, Montoya acquires ailing or bankrupt restaurants cheaply and breathes new life into them. 140

INDEPENDENT STARS **WEISSGERBER FAMILY.** The opening of Weissgerber's Third Street Pier in Milwaukee's promising riverfront redevelopment area is a turning point for one of the area's leading independent operators and a symbol of the city's resolve to make the Milwaukee River a civic resource. 144

FOOD AND BEVERAGE

MENU IDEAS **PIZZA.** Pizza is highly profitable, from the classic tomatoes-and-cheese variety, inspired by traditional Italian recipes, to the more exotic New Wave concoctions, where the pie's the limit. Customers can't get enough of it. 147

CHEF'S ART **STRIPES.** Bob Marcelli, chef/-owner of Stripes, in Norfolk, VA, serves sautéed oysters Virginia, which combines influences and ingredients from Marcelli's native New England with a distinctive Southern touch. 152

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UPCOMING INDUSTRY EVENT

The second annual **CENTER-OF-PLATE** Foodservice Conference will be held in Chicago April 2 to 4. For more information, contact Nancy Nugent, AMI, PO Box 3556, Washington, DC 20007; 703-841-2400.

IN THE NEXT ISSUE

COVER STORY HUMAN RESOURCES
A report on a roundtable discussion conducted by CHART, the Council of Hotel and Restaurant Trainers, cosponsored by *Restaurant Business*, which attacked critical issues of cultural diversity, literacy, and retention in the work force.

MARKET SEGMENT REPORT MEXICAN
Overall, though it's a very competitive segment, there's lots of opportunity for growth. The mid-price niche is filled by strongly entrenched independents and small regional chains. Taco Bell still dominates the Mexican fast-food arena, but competitors are staging a discounting war.

MENU IDEAS BREAKFAST
From exotic signature pancakes and hand-held biscuit sandwiches to omelets and egg-based skillet entrees, new product introductions and promotions are helping boost this segment.

SPIRITS SUPERPREMIUM BEERS
Exotic imported beers and homegrown microbrews deliver customer dollars in a series of imaginative promotions.

PIECE MEAL:
Grilled Vegetables, page 157.

HOW TO WIN A FOOD FIGHT.

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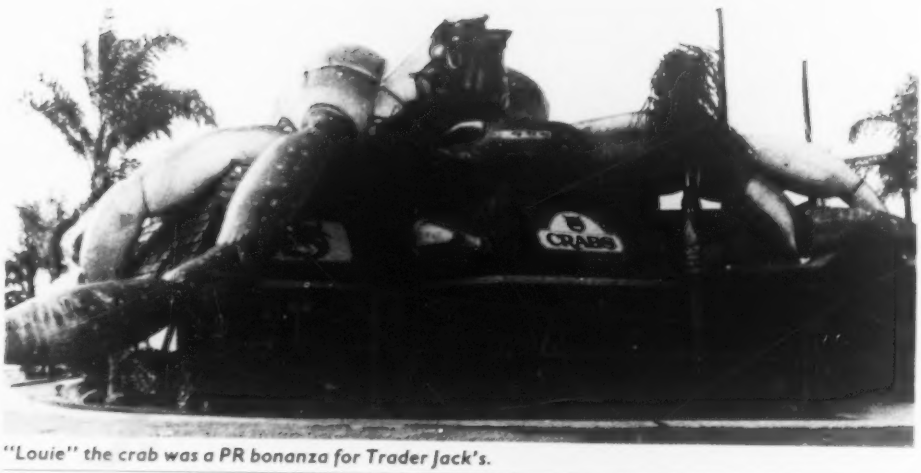


"Louie" the crab was a PR bonanza for Trader Jack's.

How a Giant Crab Became Big Business

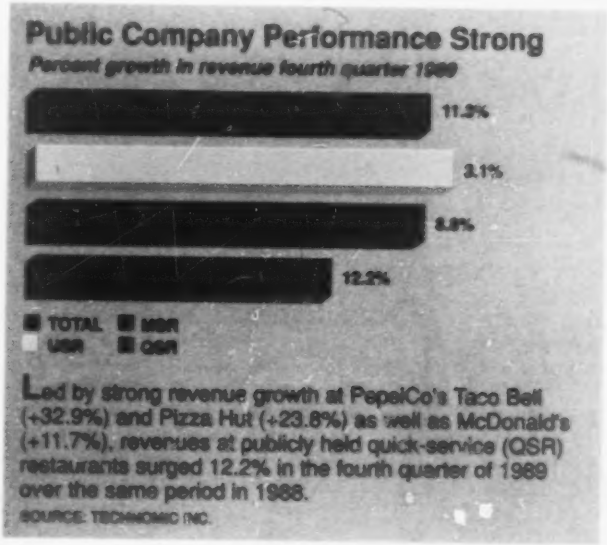
What began as a zany promotion featuring a humongous inflatable crab has evolved into a thriving business for the owners of Trader Jack's, The Crab House & Pub in West Palm Beach, FL.

Incredible Inflatables Inc. is not a business that Jeff Kukes and partners Liz Whelan and Jack Palumbo planned on founding. But when the giant crustacean resting atop their Trader Jack's roof drew attention from local newspapers and radio stations and drove profits up 250%, the three saw serious dollars.

"We were starting with seafood restaurants because that is our specific area of knowledge," says Kukes. "But eventually, we may expand into other types of restaurants as our experience with inflatables grows."

The crab, dubbed "Louie" by the press, became the center of a "Save the Crab" movement when city officials attempted to fine the owners and ban the crab.

"Parents brought their children for photos on our front lawn," recalls Kukes. "Traffic stopped in front of the restaurant constantly. We've even sold hundreds of T-shirts and postcards. It made Trader Jack's a landmark almost over night." The restaurateurs' new company will build 10 50-ft. inflatables this year. They will be offered on an exclusive basis in each market.–Howard Riell


Public Company Performance Strong
Percent growth in revenue fourth quarter 1989
11.3%
3.1%
8.8%
12.2%
TOTAL
MSR
USR
QSR
Led by strong revenue growth at PepsiCo's Taco Bell (+32.9%) and Pizza Hut (+23.8%) as well as McDonald's (+11.7%), revenues at publicly held quick-service (QSR) restaurants surged 12.2% in the fourth quarter of 1989 over the same period in 1988.
SOURCE: TECHNOMIC INC.

Carl's Rolls ATM Cards

Anaheim, CA-based Carl's Jr. has become the first major fast-food chain to accept automatic teller machine (ATM) cards systemwide.

The move will allow people with ATM cards from four California-based banks to withdraw up to $40 at all 498 Carl's Jr. locations throughout California, Nevada, and Arizona. The program will be managed through Wells Fargo's Interlink system. The system was tested at 125 Carl's locations.–Kevin Farrell

TX Operators Help Kids

Operators in Corpus Christi, TX, are befriending and employing troubled Hispanic youngsters who have either dropped out of high school or are thinking about it.

It's all part of a mentorship program jointly sponsored by the Coastal Bend Restaurant Association and the LULAC (League of United Latin American Citizens) Education Services Center. LULAC matches the youngsters with local restaurateurs who give them jobs in the hope that they will come to value the importance of an education.

"We're trying to get them to focus on their long-term goals," says Roy de los Santos, director of the LULAC center.

"Many of these kids have parents who can't give them all the material things other kids have," de los Santos adds, "so the kids try to get them themselves, even if it means quitting school."

The youths continue their studies while holding down their jobs. LULAC asks the participating employers to provide incentives.

When they're hired, each kid is told he will be laid off if he doesn't receive his high school equivalency diploma within a specified period.

For those participants still in school, employers are asked to reward their educational accomplishments.

For an "A" grade, for example, they might give a student a day off or a cash prize. Various other incentives are designed to cement the desire to stay in school and succeed.
–Don Nichols

C-O-P Panelists Eye Challenges

How should the foodservice industry respond to the growing concern over food safety and nutrition, increased government regulations, and consumer and competitive trends? Solutions to these problems will be the main topics of discussion at the upcoming C-O-P Foodservice Conference, April 2 to 4, 1990, at the Chicago O'Hare Airport.

One of the highlights of this year's C-O-P Conference will be a panel, featuring five top executives selected from each sector of the industry, who will share their insights into the challenges of the '90s. The five panelists are:

- Harris "Bud" Rusitzky, president, Serv-Rite Food Service, and president, National Restaurant Association;
- Ted Fowler, president, Golden Corral Family Steak Houses;
- Denise Tase, president, Wienerschnitzel;
- Paul Gordon, president, Gordon Food Service; and
- James McVey, president, Oscar Mayer Foods Corporation.

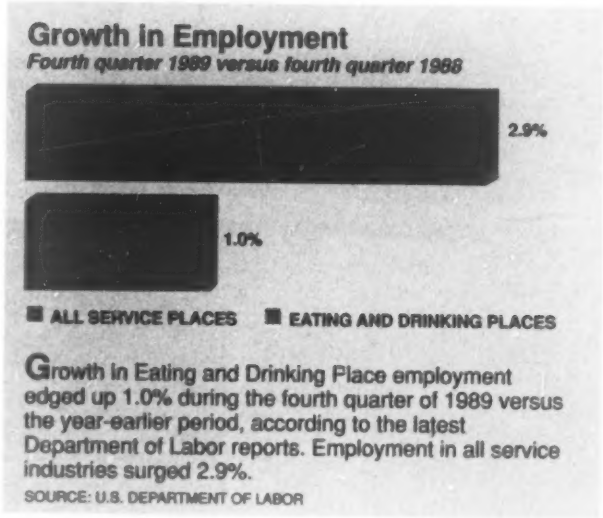
Tackling the topic, "New Politics: Will We Win or Lose?" will be Cliff Raber, vice president of government relations for McDonald's Corp.

The C-O-P Foodservice Conference is designed to bring together all sectors of the industry to focus on critical center-of-plate issues.

The C-O-P conference is sponsored by *Restaurant Business* and the American Meat Institute (AMI) in cooperation with *RB*'s sister publications, *Institutional Distribution* and *FoodService Director*, and the following allied associations: the International Foodservice Distributors Association, the National Pork Producers Council, and the National Live Stock and Meat Board.

For registration information, contact Nancy Nugent, American Meat Institute, at (703) 841-2400.

–Peter Berlinski


Growth in Employment
Fourth quarter 1989 versus fourth quarter 1988
2.9%
1.0%
ALL SERVICE PLACES
EATING AND DRINKING PLACES
Growth in Eating and Drinking Place employment edged up 1.0% during the fourth quarter of 1989 versus the year-earlier period, according to the latest Department of Labor reports. Employment in all service industries surged 2.9%.
SOURCE: U.S. DEPARTMENT OF LABOR

From NYC to Boca Raton

A chic New York City restaurant that catered to trend setters on Manhattan's Upper East Side from 1979 to 1985 has resurfaced in Boca Raton, FL.

Robert Shapiro recently opened Hoexter's Market in swanky Crocker Center.

To head up his kitchen, Shapiro chose Norman Van Aken, the well-known chef who authored "Feast of Sunlight," a cookbook based on his 17 years of culinary experience.

The 9,000-sq.-ft. restaurant serves beef that comes from Rocky Mountain cattle raised on mountain water and organic grains.

A variety of fresh fish and shellfish is also available, and Maine lobster is flown in daily. In addition, oysters, mussels, and beluga caviar are regularly featured at an elegant raw bar.

Aside from the Hoexter's establishment located in Manhattan, Shapiro has owned several other popular New York City restaurants, including Uzies, Texarkana, and Vanessa. –Don Nichols

Real Growth in Retail Sales (Preliminary)
January - November 1989
+3.1%
+0.4%
-1.8%
-1.4%
RESTAURANTS
FAST FOOD
DRINKING PLACES
TOTAL
According to U.S. Department of Commerce reports, retail sales at Eating and Drinking Places reached $150.9 billion for the 11 months ending November 30,1989. This represents only a 5% nominal increase over the same period in 1988-a sluggish 0.4% real growth.
SOURCE: U.S. DEPARTMENT OF COMMERCE

European 'Window' Closing?

While the unification of Europe into one economic entity in 1992 will create a single powerful market representing $2.4 trillion and 320 million people, the window of opportunity for American franchisors may already be closing, says Homer Price, a franchise law specialist.

"The unification is designed to remove internal trade barriers among the 12 member nations," says Price. He warns, however, that "there is a possibility that external barriers to entering the European Community, like tighter import restrictions and higher tariffs, might make U.S. activity in Europe more difficult" for companies that don't already operate there.

Price, vice president of McLean Sanders Price Head & Ellis, a Fort Worth, TX, law firm, advises that American franchisors who may be planning overseas operations should begin to enter the market now. One way is by granting a master license for a large territory with sublicensing rights, he says.

–Nancy Cohen

1988-89 Systemwide Sales by Company and Franchise ($000,000)

Franchise System	1989					1988	'88-'89
	Fiscal Year	Systemwide	Avg. Unit Volume	Company-Owned	Franchisee-Owned	Systemwide	% Total Change
1 McDonald's	12/89	$17,535	$1,645,000	$4,637	$12,898	$16,064	9.2
2 Burger King	5/89	5,700	943,396	969	4,731	5,400	5.6
3 Kentucky Fried Chicken	12/89	4,900	714,000	1,415	3,485	4,896	0.1
4 Hardee's	12/89	3,500	925,000	1,185	2,315	3,306	5.9
5 Pizza Hut*	12/89	3,330	587,600	2,200	1,130	2,800	18.9
6 Wendy's*	1/90	3,035	770,000	982	2,053	2,869	5.8
7 Domino's	12/89	2,475	492,000	588	1,887	2,307	7.3
8 Dairy Queen*	11/89	2,195	420,000	2	2,193	2,067	6.2
9 Taco Bell*	12/89	2,100	712,000	1,300	800	1,600	31.3
10 Denny's*	12/89	1,455	1,150,000	1,225	230	1,323	10.0
11 Arby's*	10/89	1,350	635,000	135	1,215	1,160	16.4
12 Big Boy	12/89	1,300	1,100,000	200	1,100	1,100	18.2
13 Little Caesars Pizza	12/89	1,200	436,840	300	900	1,000	20.0
14 Sizzler	4/89	883	1,472,000	295	588	790	11.8
15 Dunkin' Donuts*	10/89	875	515,000	3	872	790	10.8
16 Jack In The Box*	10/89	845	945,000	620	225	775	9.0
17 Ponderosa Steakhouse*	2/90	835	1,160,000	465	370	800	4.4
18 Shoney's	10/89	831	1,453,000	402	429	750	10.8
19 Long John Silver's	6/89	780	550,000	520	260	753	3.6
20 Subway*	12/89	770	220,000	6	764	603	27.7
21 Roy Rogers*	12/89	670	1,145,000	380	290	630	6.3
22 Baskin-Robbins*	12/89	640	190,000	35	605	623	2.7
23 Bonanza Family Restaurants*	12/89	610	980,000	2	608	571	6.8
24 Carl's Jr.	1/90	562	1,045,000	476	86	481	16.8
25 Popeyes Famous Fried Chicken*	10/89	525	755,000	85	440	485	8.2
26 Church's Fried Chicken*	10/89	515	390,000	322	193	560	(8.0)
27 Western Sizzlin'*	10/89	450	795,000	0	450	463	(2.8)
28 Perkins Restaurants	12/89	437	1,285,000	142	295	375	16.5
29 Chi-Chi's	9/89	431	2,577,000	323	108	411	4.9
30 Sonic	8/89	410	394,500	35	375	341	20.2
31 Captain D's	10/89	401	660,000	229	172	364	10.2
32 Ground Round*	9/89	375	1,600,000	313	62	300	25.0
33 International House of Pancakes	12/89	359	747,000	31	328	316	13.6
34 Chili's	6/89	332	2,070,000	266	66	261	27.2
35 Rax Restaurants	7/89	319	640,000	97	222	366	(12.8)
36 Pizza Inn*	6/89	305	468,000	125	180	300	1.7
37 TCBY	11/89	303	232,000	30	273	210	44.3
38 Round Table Pizza	7/89	295	545,000	0	295	250	18.0
39 Ryan's Family Steak Houses	12/89	295	2,230,000	238	57	235	25.5
40 Whataburger Restaurants*	9/89	290	670,000	185	105	272	6.6
41 Showbiz Pizza*	12/89	265	1,100,000	135	130	261	1.5
42 Waffle House*	6/89	265	410,000	110	155	250	6.0
43 Godfather's Pizza	5/89	250	450,000	85	165	242	3.3
44 Marie Callender Pie Shops*	12/89	250	1,560,000	135	115	225	11.1
45 Tony Roma's*	2/90	245	2,445,000	40	205	220	11.4
46 Carvel Ice Cream*	12/89	235	265,000	3	232	223	5.4
47 Village Inn	10/89	235	1,054,000	137	98	233	0.9
48 Sbarro	12/89	210	535,000	155	55	154	36.4
49 Mr. Steak*	2/90	205	350,000	1	204	175	17.1
50 Grandy's*	12/89	200	950,000	105	95	185	8.1

* Estimated

Note: Data includes international operations; data is in millions of dollars, except average unit volume.

1988-89 Systemwide Units by Company and Franchise

Franchise System	1989			1988			'88-'89
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned	% Total Change
1 McDonald's	11,120	2,800	8,320	10,513	2,600	7,913	5.8
2 Kentucky Fried Chicken	7,945	2,112	5,833	7,761	1,571	6,190	2.4
3 Pizza Hut	7,684	3,770	3,914	6,662	2,984	3,678	15.3
4 Burger King	6,042	983	5,059	5,473	818	4,655	10.4
5 Dairy Queen*	5,206	5	5,201	5,122	5	5,117	1.6
6 Domino's	5,170	1,382	3,788	4,893	1,370	3,523	5.7
7 Subway*	4,150	30	4,120	2,898	30	2,868	43.2
8 Wendy's	3,754	1,142	2,612	3,816	1,229	2,587	(1.6)
9 Baskin-Robbins*	3,351	188	3,163	3,406	192	3,214	(1.6)
10 Hardee's	3,291	1,086	2,205	3,110	1,038	2,072	5.8
11 Taco Bell	3,000	1,800	1,200	2,930	1,716	1,214	2.4
12 Little Caesars Pizza	2,747	687	2,060	2,375	578	1,797	15.7
13 Arby's*	2,150	220	1,930	2,049	209	1,840	4.9
14 Dunkin' Donuts	1,878	6	1,872	1,765	6	1,759	6.4
15 TCBY	1,582	149	1,443	1,175	115	1,060	34.6
16 Long John Silver's	1,490	1,017	473	1,469	979	490	1.4
17 Denny's*	1,365	1,050	315	1,299	1,001	298	5.1
18 Church's Fried Chicken*	1,213	807	406	1,369	998	371	(11.4)
19 Big Boy	1,020	150	870	960	81	879	6.3
20 Jack In The Box	1,000	665	335	957	637	320	4.5
21 Sonic Drive-Ins	1,000	85	915	985	74	911	1.5
22 Carvel Ice Cream*	890	10	880	895	10	885	(0.6)
23 Popeyes Famous Fried Chicken*	743	114	629	715	102	613	3.9
24 Ponderosa*	720	400	320	715	400	315	0.7
25 Shoney's	680	280	400	643	277	366	5.8
26 Waffle House*	670	280	390	650	273	377	3.1
27 Pizza Inn	654	266	388	666	278	388	(1.8)
28 Winchell's Donut House*	650	580	70	671	603	68	(3.1)
29 Sizzler	628	201	427	588	187	401	6.8
30 Roy Rogers*	622	361	261	576	334	242	8.0
31 Bonanza Family Restaurants*	615	2	613	612	2	610	0.5
32 Captain D's	607	348	259	588	253	335	3.2
33 Mr. Donut*	590	1	589	599	1	598	(1.5)
34 Western Sizzlin'*	565	0	565	580	0	580	(2.6)
35 Round Table Pizza	543	0	543	535	0	535	1.5
36 Carl's Jr.	524	442	82	482	406	76	8.7
37 Godfather's Pizza	503	170	333	540	180	360	(6.9)
38 Rax Restaurants	498	140	358	521	148	373	(4.4)
39 International House of Pancakes	480	56	424	458	59	399	4.8
40 Whataburger Restaurants*	435	279	156	422	271	151	3.1
41 Sbarro	390	297	93	288	235	53	35.4
42 Perkins Restaurants	371	114	257	341	114	227	8.8
43 Mazzio's Restaurants*	290	132	158	295	130	165	1.8
44 Lee's Famous Recipe	282	48	234	283	46	237	(0.4)
45 ShowBiz Pizza*	257	131	126	263	129	134	(2.3)
46 Country Kitchen	255	3	252	252	3	249	1.2
47 Ground Round*	235	195	40	215	178	37	9.3
48 Village Inn	234	133	101	256	139	117	(8.6)
49 Shakey's Pizza Parlor*	230	9	221	231	9	222	(0.4)
50 Grandy's*	211	111	100	205	108	97	2.9

* Estimated

Note: Data includes international operations

FRANCHISE SUMMARY

Franchising continues to represent the small business-owner's greatest chances for success. In the restaurant industry, which has grown increasingly more competitive and more saturated in the past decade, franchising offers the unique advantage of proven business methods and systems. In franchising, the franchisor has already done most of the work necessary to make the concept succeed.

For this and a variety of other reasons, franchising is in a very robust state of health. Franchising sales of goods and services in nearly 533,000 outlets are expected to reach almost $716.4 billion in 1990, 114% higher than at the start of the 1980s. This rapid growth has been led by business format franchising, which is expected to grow by 155% toward the end of 1990. Employment in franchising, including part-time workers and working proprietors, was 7.7 million individ-

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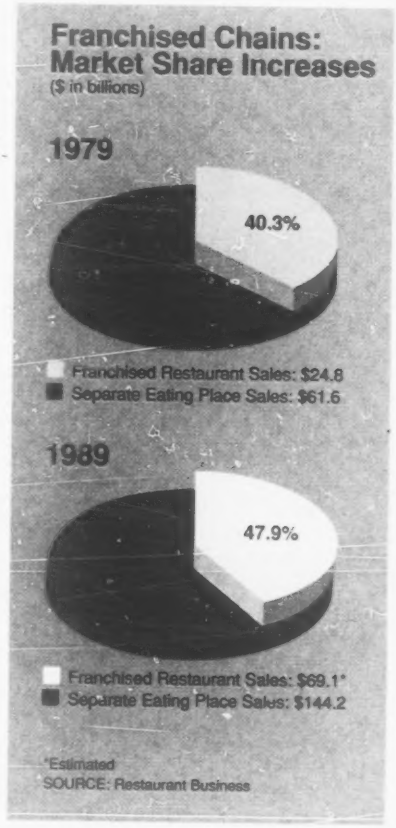

U. S. FRANCHISED RESTAURANTS SUMMARY

Item	1988	1989*	1990*	Percent Changes 1988-89	Percent Changes 1989-90
Company-owned units	27,305	27,761	29,313	1.7	5.6
Franchisee-owned units	63,040	66,524	72,822	5.5	9.5
Total number of units	**90,345**	**94,285**	**102,135**	**4.4**	**8.3**
Company-owned sales ($000)	$22,276,989	$23,438,938	$25,688,238	5.2	9.6
Franchisee-owned sales ($000)	42,003,446	45,655,170	50,827,883	8.7	11.3
Total sales	**$64,280,435**	**$69,094,108**	**$76,516,121**	**7.5**	**10.7**
Avg. unit sales, company-owned units ($000)	$816	$844	$876	3.4	3.8
Avg. unit sales, franchisee-owned units ($000)	666	686	698	3.0	1.7
Total average unit sales ($000)	**$711**	**$732**	**$749**	**3.0**	**2.3**

* Estimated by respondents

Franchising allows businesses to have a greater chance for success.

etors, was 7.7 million individuals in 1988. This represented 6.9% of the total nonagricultural employment in the U.S.

The expansion to foreign markets by U.S. business format franchisors continues to increase rapidly. In 1988, almost 17% of all U.S. business format franchisors had more than 35,000 outlets in countries outside the U.S. In addition, domestic product and trade name franchisors are now operating in more than 160 countries.

During the 1990s, continued growth in franchising is expected to occur in franchisee-owned outlets rather than company-owned units. In 1989, the number of franchisee-owned outlets was expected to rise 7.0% compared with only a 1.1% increase in company-owned units.

Estimates for 1990 are for franchisee units to increase nearly twice as fast as company-owned units. While this expansion rate occurs in units owned by franchisees, it should be noted that company-owned units, in general, tend to have higher average sales than franchisee-owned units. This reflects a

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RESTAURANT FRANCHISING
GROWTH IN SALES 1984-1989
(SALES: $000)

Major Activity	Total Sales			Company-owned			Franchisee-owned		
	1984	1989*	% Change	1984	1989*	% Change	1984	1989*	% Change
Chicken	$3,891,165	$5,146,744	32.3	$1,599,723	$1,824,878	14.1	$2,291,442	$3,321,866	45.0
Hamburger, Franks, Roast Beef	22,043,955	34,442,872	56.2	6,055,926	8,606,482	42.1	15,988,029	25,836,390	61.6
Pizza	4,932,329	10,278,107	108.3	1,874,951	4,049,072	116.0	3,057,378	6,229,035	103.7
Mexican	2,113,104	3,101,192	46.8	1,121,070	1,661,700	48.2	992,034	1,439,492	45.1
Seafood	1,074,426	754,358	(29.8)	622,258	438,308	(29.6)	452,168	316,050	(30.1)
Pancake, Waffle	985,350	1,404,720	42.6	318,193	504,188	58.5	667,157	900,532	34.9
Steak, Full Menu	7,767,393	12,183,216	56.9	4,671,807	6,177,372	32.2	3,095,586	6,005,844	94.0
Sandwich, Other	626,060	1,782,899	184.8	129,624	176,938	36.5	496,436	1,605,961	223.5
Total	$43,433,782	$69,094,108	59.1	$16,393,552	$23,438,938	43.0	$27,040,230	$45,655,170	68.9

RESTAURANT FRANCHISING
GROWTH IN UNITS, 1984-1989

Major Activity	Total Units			Company-Owned			Franchisee-Owned		
	1984	1989*	% Change	1984	1989*	% Change	1984	1989*	% Change
Chicken	8,576	8,702	1.5	3,162	2,805	(11.2)	5,414	5,897	10.6
Hamburger, Franks, Roast Beef	29,305	38,804	32.4	6,445	8,580	33.1	22,860	30,224	32.2
Pizza	12,705	20,275	59.6	4,362	6,871	57.5	8,343	13,404	60.7
Mexican	3,774	4,567	21.0	1,702	1,973	15.9	2,072	2,594	25.2
Seafood	2,320	1,186	(48.9)	1,308	664	(49.2)	1,012	522	(48.4)
Pancake, Waffle	1,704	1,752	2.8	526	481	(8.5)	1,178	1,271	7.9
Steak, Full Menu	9,563	12,525	31.1	4,883	5,971	22.3	4,680	6,554	40.0
Sandwich, Other	2,548	6,474	54.1	563	416	(26.1)	1,985	6,058	205.2
Total	70,495	94,285	33.7	22,951	27,761	21.0	47,544	66,524	39.9

** Estimated by respondents*

Business format franchising is one of the most successful of the systems.

higher concentration of company-owned outlets in major urban centers, and a corresponding higher investment cost per outlet.

The franchise method of business growth, still young compared with other expansion methods, continues to contribute significantly to the American economy. Franchising provides rapid growth for the franchisor and, more important, it vastly increases the likelihood of success for the small businessperson, namely the franchisee. This unique working relationship offers flexibility and security unavailable under other business expansion systems.

Franchising is perhaps the only business structure that tends to create additional business units. Since the franchisee uses the franchisor's expertise and trademark or service mark, franchising permits small businesses to compete with major players. It also provides this unique opportunity to entrepreneurs with limited capital and business experience.

BUSINESS FORMAT FRANCHISING. Business format franchising is characterized by an ongoing business relationship between franchisor and franchisee. This includes the product, service, and trademark, as well as the entire

RESTAURANT FRANCHISING, 1988-1990
SALES ($000)

MAJOR ACTIVITY	1988			1989*		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
Chicken	$4,945,775	$1,858,324	$3,087,451	$5,146,744	$1,824,878	$3,321,866
Hamburger, Franks, Roast Beef, etc.	31,986,347	8,120,081	23,866,266	34,442,872	8,606,482	25,836,390
Pizza	9,606,941	3,789,808	5,817,133	10,278,107	4,049,072	6,229,035
Mexican	2,975,795	1,634,064	1,341,731	3,101,192	1,661,700	1,439,492
Seafood	723,115	419,998	303,117	754,358	438,308	316,050
Pancake, Waffle	1,262,754	463,970	798,784	1,404,720	504,188	900,532
Steak, Full Menu	11,337,777	5,833,546	5,504,231	12,183,216	6,177,372	6,005,844
Sandwich, Other	1,441,931	157,198	1,284,733	1,782,899	176,938	1,605,961
TOTAL	$64,280,435	$22,276,989	$42,003,446	$69,094,108	$23,438,938	$45,655,170

* Estimated by respondents

RESTAURANT FRANCHISING, 1988-1990
NUMBER OF UNITS

MAJOR ACTIVITY	1988			1989*		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
Chicken	9,116	3,110	6,006	8,702	2,805	5,897
Hamburger, Franks, Roast Beef, etc.	37,081	8,324	28,757	38,804	8,580	30,224
Pizza	19,243	6,556	12,687	20,275	6,871	13,404
Mexican	4,407	1,935	2,472	4,567	1,973	2,594
Seafood	1,199	685	514	1,186	664	522
Pancake, Waffle	1,650	469	1,181	1,752	481	1,271
Steak, Full Menu	12,120	5,835	6,285	12,525	5,971	6,554
Sandwich, Other	5,529	391	5,138	6,474	416	6,058
TOTAL	90,345	27,305	63,040	94,285	27,761	66,524

* Estimated by respondents

business concept itself (a marketing strategy and plan, operating manuals and standards, quality control, and an ongoing process of assistance and guidance from the franchisor).

Restaurants, food and nonfood retailing, and personal and business services fall in the category of business format franchising, which has been responsible for much of the franchising growth in the U.S. and internationally since 1960. It will continue to offer numerous opportunities for individuals seeking to own a business.

The volume of sales and the number of units owned or franchised by business format franchisors have risen steadily since 1972, when sales of $28.7 million were generated by some 189,640 establishments. Sales of business format franchisors are expected to reach almost $213.2 billion in 1990, compared with $192.4 billion in 1989 and $178.3 billion in 1988.

In contrast to product and trade-name franchises, the number of business format franchise establishments is expected to increase to nearly 392,900 in 1990, compared with 358,400 in 1989 and 339,000 in 1988.

The number of business format franchisors offering products and/or services to current and prospective franchisees has also risen steadily since 1972. In 1972, there were 909 franchisors in this category; in 1988, the latest year for which such figures were available, that number had more than doubled to 2,239 franchisors. This trend is expected to continue during the 1990s, since more and more companies are expected to expand their distribution of goods and/or services through a franchising system.

Large franchisors—those with 1,000 or more units each, will continue to dominate business format franchising, with 69 companies accounting for 51.7% of all sales and 53.2% of all units in 1988. The total number of outlets reported by these large franchisors was 180,200, with sales of nearly $92.2 billion. Of these large franchisors, 16 were engaged in the business of restaurant franchising.

In 1990, franchise units will grow twice as fast as company-owned units.

RESTAURANTS. Franchise restaurants continue to face increasing competition, both internally and externally. Restaurant operators have reacted in several ways to these competitive forces. For example, to satisfy customer demand, they are expanding menus, using fresher ingredients to please more sophisticated patrons, adding more food bars, upgrading facilities and improving service, and offering take-out and delivery services to convenience-seeking consumers. These concepts continue to grow in fast-food restaurants and are now being implemented in upscale restaurants.

Restaurant franchisors have been trying to strengthen their presence in current market segments rather than expanding into new markets. As a result, some companies have been searching for profitable mergers and acquisitions or even selling off unprofitable

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	1990*	
Total	Company-Owned	Franchisee-Owned
$5,666,430	$1,977,410	$3,689,020
37,570,305	9,245,350	28,324,955
11,487,519	4,578,639	6,908,880
3,389,800	1,773,825	1,615,975
836,727	470,632	366,095
1,563,181	556,607	1,006,574
13,687,181	6,864,211	6,822,970
2,314,978	221,564	2,093,414
$76,516,121	$25,688,238	$50,827,883

	1990*	
Company-Total	Franchisee-Owned	Owned
9,112	2,868	6,244
41,249	9,018	32,231
21,954	7,337	14,617
4,926	2,074	2,852
1,285	695	590
1,908	511	1,397
13,565	6,329	7,236
8,136	481	7,655
102,135	29,313	72,822

Franchised restaurants will face greater competition in the future.

units and restructuring corporate operations.

International operations of franchised restaurants continue to expand as the domestic market becomes more saturated. In 1988, 6,996 units were located outside the U.S., Japan, and Canada. As in the past, these units account for the largest number of these operations. Currently, 13% of all franchisors have locations outside the U.S., and another 1.5% plan to locate outside the U.S. in the near future. Globalization is also a factor, since more foreign companies have increased their investments here in the United States.

Sales of franchised restaurants of all types were expected to reach almost $69.1 billion in 1989, an 8.7% increase compared with 1988 sales of $64.3 billion. Sales are expected to increase still further to $76.5 billion in 1990.

The number of franchised restaurants totaled 90,345 in 1988, increased to 94,285 in 1989, and are expected to reach 102,135 in 1990. The highest concentrations of franchised restaurants continues to be in California, Texas, Ohio, and Florida. The majority have a hamburger menu theme, accounting for almost half of all franchised restaurant sales.

Employment in the franchise restaurant sector was 2,726,605 individuals in 1988, up from 2,453,621 individuals in 1986. The average number of employees per establishment for 1988 was 30.2.

Text and data for this article were adapted from the annual report, "Franchising in the Economy," published by the Educational Foundation of the International Franchising Association (IFA) and Laventhol & Horwath (L&H). In previous years, this study had been undertaken by the U.S. Department of Commerce. Data for the Top 50 charts was provided exclusively to Restaurant Business *by Technomic Inc.*

U.S. FRANCHISED RESTAURANTS*

NUMBER OF ESTABLISHMENTS BY STATE, 1988

State	Total	Company-Owned	Franchisee-Owned	State	Total	Company-Owned	Franchisee-Owned
Alabama	1,442	375	1,067	Nebraska	380	186	194
Alaska	137	16	121	Nevada	543	109	434
Arizona	1,176	368	808	New Hampshire	297	25	272
Arkansas	809	146	663	New Jersey	494	354	140
California	8,422	2,265	6,157	New Mexico	1,213	96	1,117
Colorado	1,350	376	974	New York	1,064	527	537
Connecticut	592	88	504	North Carolina	2,489	516	1,973
Delaware	191	88	103	North Dakota	229	17	212
Dist. of Columbia	169	83	86	Ohio	4,449	1,486	2,963
Florida	4,480	1,577	2,903	Oklahoma	1,859	701	1,158
Georgia	2,740	1,193	1,547	Oregon	948	160	788
Hawaii	245	99	146	Pennsylvania	2,554	866	1,688
Idaho	226	23	203	Rhode Island	173	51	122
Illinois	3,646	1,291	2,355	South Carolina	1,376	326	1,050
Indiana	2,375	756	1,619	South Dakota	245	48	197
Iowa	1,223	257	966	Tennessee	1,771	522	1,249
Kansas	1,114	321	793	Texas	7,435	2,772	4,663
Kentucky	1,632	494	1,138	Utah	393	96	297
Louisiana	1,660	522	1,138	Vermont	61	1	60
Maine	824	3	821	Virginia	2,150	679	1,471
Maryland	685	506	179	Washington	1,203	369	834
Massachusetts	942	207	735	West Virginia	616	190	426
Michigan	1,521	896	625	Wisconsin	1,619	377	1,242
Minnesota	2,559	386	2,173	Wyoming	450	24	426
Mississippi	1,198	146	1,052	Puerto Rico	199	22	177
Missouri	1,432	801	631	Other U.S. Poss.	15	1	14
Montana	1,368	4	1,364	TOTAL	78,625	23,808	54,817

* Represents 87% of total establishments. The remaining 13% were unable to provide a geographic breakdown for this report.